STATE OF CONNECTICUT
INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department
Before

The Insurance and Real Estate Committee

Tuesday, March 3rd , 2009

Senate Bill 1024—An Act Establishing a State Workers' Compensation Insurance Program

The Connecticut Insurance Department would like to offer the following comments in opposition to Senate Bill 1024—An Act Establishing a State Workers' Compensation Insurance Program.

First, the establishment of a State Workers' Compensation Insurance Program, which is mechanism that essentially competes with the private sector, is unnecessary. This proposal effectively puts the State of Connecticut in the business of insurance. If a state-run program operates at a loss, state run Workers' Compensation funds have historically been underfunded which results in placing burdens on taxpayers who would be responsible for subsidizing losses. In order to protect Connecticut taxpayers from subsidizing a state run Workers' Compensation program, it would need to operate in a manner much like the private sector with adequate capital and reserves.

Connecticut has a very competitive and healthy Workers' Compensation system. State compensation funds are designed to satisfy availability, affordability of insurance, and service to insured's. Connecticut does not have an availability or affordability problem. Connecticut's Workers' Compensation system is working very well and is a model for states currently in crisis.

State run compensation funds restrict competition. These funds often have significant advantages over commercial carriers operating in the market place as they often operate with significant tax incentives, and generally have no underwriting expense associated with them. New companies looking to enter the Connecticut's Workers' Compensation market might not enter the state and some companies may decide to leave the state.

Other states have experimented with State Workers' Compensation Funds and most recently Nevada and West Virginia have decided to move away from these funds to a market driven system. The few states that have had state run Workers' Compensation funds are moving away from them because they do not maintain adequate rates, and needlessly expose taxpayers to assessments.

Currently, two states in New England have a state run Workers' Compensation Fund. Both funds were created in the early 1990's to address the workers' compensation crisis in those states. Companies were not writing business and the states needed to create the funds to provide a market. Both Rhode Island and Maine's funds were initially funded by the states. Maine's program is no longer a state funded entity since several years ago it created its own mutual company. Rhode Island's fund has been plagued by major issues related to mismanagement based on press reports over the past few years.

In closing, policymakers should only consider the establishment of a state run Workers' Compensation program if they believe Connecticut has a Workers' Compensation where affordability and availability issue of coverage is an issue.